

Message Text

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TAGS: CI, EMIN, UNCTAD

SUBJECT: UNCTAD/COPPER: CHILEAN POSITION ON UNCTAD AND THE COMMON
FUND

REF: (A) SANTIAGO 3043 (NOTAL) (B) STATE 78873 (C) STATE 91858

SUMMARY. IN A CONTINUATION OF DIALOGUE ON COPPER COMMODITY PROBLEMS, PABLO GONDONNEAU, HEAD OF CHILE'S COPPER COMMISSION AND CHIEF COPPER POLICYMAKER, OUTLINED CHILE'S POSITION IN THE FORTHCOMING UNCTAD PREPARATORY MEETING ON COPPER. HE WENT ON TO EXPOUND HIS OPPOSITION TO UNCTAD AS A FORUM FOR COPPER CONSULTATIONS AND HIS OBJECTIONS TO THE COMMON FUND, AND TO THE COMMODITY PROPOSALS TABLED THUS FAR. FINALLY, HE REITERATED HIS VIEW THAT THE ESSENCE OF THE PROBLEM IS A FUTURE COPPER SHORTAGE, AND OPINED THAT PRODUCERS AND CONSUMERS SHOULD CONCENTRATE ON THAT. END SUMMARY.

1. IN DISCUSSIONS BASED ON REFTELS (B) AND (C), GONDONNEAU SAID THAT AT THE SECOND PREPARATORY UNCTAD MEETING ON COPPER TO BE HELD IN GENEVA STARTING MAY 16, THE CHILEAN POSITION WILL BE AS FOLLOWS:

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-- A BUFFER STOCK COULD BE ONE ELEMENT IN THE SOLUTION OF THE
COPPER PRICE PROBLEM;

-- THERE MUST BE NO OUTPUT RESTRAINTS ON PRODUCERS; AND

-- CONSULTATION SHOULD BE LIMITED TO A SMALL, GROUP OF
SERIOUSLY INTERESTED PRODUCERS AND CONSUMERS, I.E. OECD PLUS
CIPEC COUNTRIES.

2. AS PREVIOUSLY REPORTED, GONDONNEAU HAS GRAVE DOUBTS THAT COPPER CONSULTATIONS CAN USEFULLY BE CONDUCTED IN THE UNCTAD CONTEXT. HE OBSERVED THAT THE SO-CALLED EXPERTS GROUP CONSISTS OF 14 PRODUCERS, 14 CONSUMERS PLUS THE CIPEC AND OECD COUNTRIES. FURTHERMORE, MEMBERSHIP IS OPEN AND COUNTRIES SUCH AS MALTA AND HAITI HAVE JOINED WITH THE APPARENT PURPOSE OF SIMPLY OF MAKING NOISE. HOW, HE ASKS, CAN SERIOUS DELIBERATION TAKE PLACE IN SUCH A LARGE, DIVERSE GROUP?

3. GONDONNEAU HAS MANY OBJECTIONS TO THE COMMON FUND. HARD AS IT IS TO GET COUNTRIES TO AGREE TO THE FUND IN PRINCIPAL, IT WILL BE INFINITELY MORE DIFFICULT TO ESTABLISH THE RULES OF OPERATION FOR EACH COMMODITY AND, IN ADDITION, FOR THE FUND AS A WHOLE. MOREOVER, HE CHALLENGES THE PREMISE THAT PRICES OF COMMODITIES TEND TO MOVE IN OPPOSITE DIRECTIONS SO THAT PURCHASES OF ONE COMMODITY COULD BE OFFSET BY SALES OF ANOTHER. ACCORDING TO STUDIES HE HAS SEEN, COMMODITY PRICES TEND TO TRACK TOGETHER AS A FUNCTION OF THE WORLD ECONOMIC SITUATION. AND IF COFFEE, BANANAS AND COPPER ALL HAVE TO BE BOUGHT AT THE SAME TIME, WILL THERE BE FUNDS AVAILABLE TO PURCHASE ALL THREE? IF NOT, HOW WOULD PRIORITIES BE SET?

4. THIS PROBLEM APART, FUNDING UNDER THE BEST OF CIRCUMSTANCES WILL BE A MAJOR HEADACHE. GONDONNEAU DOUBTS THAT MAY PARTICIPANTS REALIZE HOW MUCH MONEY WILL BE NEEDED. THE FIGURE OF \$3 BILLION IS BEING CITED AS ADEQUATE FOR THE ENTIRE FUND; GONDONNEAU REFERRED TO A RECENT CHILEAN COPPER COMMISSION STUDY WHICH INDICATES THAT A MINIMUM OF \$2 BILLION WOULD BE NEEDED JUST FOR COPPER ALONE.

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5. GONDONNEAU QUESTIONS WHETHER RENEWABLE AND NON-RENEWABLE COMMODITIES CAN BE MESSED INTO THE SAME SCHEME. ALSO, DIFFERENT COMMODITIES ARE SUBJECT TO DIFFERENT CONSTRAINTS. DUE TO HEAVY FIXED INVESTMENT, COPPER IS VERY INELASTIC IN PRODUCTION. ITS CONSUMPTION, BY CONTRAST, IS HIGHLY ELASTIC. OTHER COMMODITIES HAVE DIFFERENT CHARACTERISTICS. COFFEE, COCOA AND BANANAS ARE DEPENDENT UPON THE WEATHER FOR PRODUCTION. COPPER CAN BE STOCK-PILED WITHOUT DETERIORATION, BANANAS CANNOT.

6. GONDONNEAU VIEWS AS ESSENTIAL THE PROVISION THAT AUTONOMY AND DECISIONS OF COMMODITY ORGANIZATIONS BE RESPECTED IN ANY COMMON FUND (REF C, PARA 4). AT THE SAME TIME, HOWEVER, THIS STIPULATION WOULD MAKE OPERATION OF A FUND ALL THE MORE DIFFICULT, IF NOT IMPOSSIBLE.

7. PRICES. THERE IS VERY LITTLE THAT CAN BE DONE ABOUT PRICES. IF ECONOMIC ACTIVITY IN THE OECD COUNTRIES PICKS UP, THE PROBLEM WILL RESOLVE ITSELF. IF NOT, GONDONNEAU SEES LITTLE IN THE WAY OF ARTIFICIAL SCHEMES WHICH WOULD CHANGE THINGS VERY MUCH. PERHAPS,

HE MUSED, EVERYONE SHOULD SIMPLY GO BACK TO THE LAW OF THE JUNGLE, WITH OVERPRODUCTION BEING REDUCED BY ELIMINATION OF THE LEAST FIT PRODUCERS. WITH ITS LOW PRODUCTION COSTS CHILE CAN SURVIVE A 60 CENT COPPER PRICE.

8. EMBOFF REJOINED THAT NOT EVEN THE LAW OF THE JUNGLE WOULD WORK IN A WORLD OF STATE-OWNED MINING COMPANIES. STATE COMPANIES CAN OPERATE AT A LOSS ALMOST INDEFINITELY FOR SOCIAL AND FOREIGN EXCHANGE CONSIDERATIONS. INDEED, FOR SUCH COMPANIES, THE SHUTDOWN POINT MIGHT BE AS LOW AS THE FOREIGN EXCHANGE COSTS OF PRODUCTION, WHICH, IN CHILE'S CASE, IS UNDERSTOOD TO BE ABOUT 20 CENTS PER POUND. THE "JUNGLE" ASIDE, EMBOFF PERSISTED, THE PROBLEM REMAINS: WHAT COULD AND SHOULD BE DONE?

9. GONDONNEAU THEREUPON REDefined THE PROBLEM AS ONE OF HOW TO OBTAIN COOPERATION BETWEEN PRODUCERS AND CONSUMERS IN A WORLD OF SHORT-TERM GLUT BUT LONG-TERM COPPER SHORTAGE. CONSUMERS RARELY LIMITED OFFICIAL USE

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TAKE THE LONG VIEW. FOR EXAMPLE, ONCE IN THE UNITED STATES HE HAD CHARGE OF SELLING SOME 16 MILLION TONS OF COKING COAL PER YEAR. DURING A PERIOD OF TEMPORARY OVERSUPPLY, HE ATTEMPTED TO CONVINCE CUSTOMERS TO COOPERATE IN NOT ALLOWING THE PRICE TO FALL TOO FAR, POINTING OUT THAT THERE WOULD SOON BE A SHORTAGE. THE CONSUMERS REFUSED. WHEN THE PREDICTED SHORTAGE OCCURRED, HIS COMPANY RAISED ITS COKING COAL PRICE OVERNIGHT FROM 30 TO 52 DOLLARS A TON, "CONTRACT OR NO CONTRACT." GONDONNEAU FORESEES A SIMILAR HAPPENING IN COPPER.

10. AT THE MOST CONSERVATIVE POSSIBLE PROJECTION, THE FREE WORLD NEEDS AN INCREASE OF 100,000 MT PER YEAR IN NEW MINING CAPACITY. NEVERTHELESS, ONLY A HANDFUL OF NEW MINING PROJECTS ARE IN THE OFFING, AND ALL WILL REQUIRE FIVE TO SEVEN YEARS TO COME ON STREAM. BOTH SIDES, GONDONNEAU CONCLUDED, SHOULD FOCUS ON WAYS TO STIMULATE NEW INVESTMENT FOR THE FUTURE.
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